

REPORT TO THE uMGUNGUNDOVU DISTRICT MUNICIPALITY COUNCIL



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For consideration

1 st Level – MANCO	:
2 nd Level – Portfolio Committee	: 14/02/2022
3 rd Level – EXCO	: /02/2022
4 th Level – Council	: /02/2022

SUBJECT: PRELIMINARY MONTHLY IN YEAR MONITORING FINANCIAL REPORT FOR THE PERIOD ENDED 31 JANUARY 2022
DATE : 14 FEBRUARY 2022

1. PURPOSE

The purpose of this report is to comply with section 71 of the Municipal Finance Management Act (MFMA) and the requirements as promulgated in the Government Gazette No 32141 of 17 April 2009.

2. STRATEGIC OBJECTIVE

To ensure good governance, financial viability and optimal institutional transformation with capacity to execute its mandate.”

3. BACKGROUND

Section 71 of the MFMA and in terms of Section 28 of the Government Notice 32141 dated 17 April 2009, regarding the “Local Government: Municipal Finance Management Act 56 of 2003, Municipal Budget and Reporting Regulations” necessitates that specific financial particulars be reported on and in the format prescribed, hence this report to meet legislative compliance.

“The Mayor of a municipality-

Section 71(1) The accounting officer of a municipality must by no later than **10 working days after the end of each month** submit to the Mayor or of the municipality and the relevant treasury a statement in the prescribed format on the state of the municipality’s budget reflecting the following particulars for the month and for the financial year up to the end of that month: ...”.

The monthly budget statement of a municipality must be in the format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.”

For the reporting period ending **31 January 2022**, the ten working day reporting limit expires on **14 February 2022**.

4. REPORT

The below is the summary of financial performance for the period ended **31 January 2022**.

Table 1

Summary of Financial Performance	
Actual Revenue to Budgeted Revenue	69
Actual OPEX to budgeted OPEX	43
Actual CAPEX to budgeted CAPEX	79
Employee related cost exp to total OPEX	46
% Grant Utilisation	82.38
Cash Coverage Ratio	1.71
Debt Service to Revenue Ratio	1.69
% Debt to Revenue Ratio	25.49
Creditors Age Analysis	56% or R 62.1 million of invoices outside 30days
Debt Collection Rate	49

4.1 Operating Budget

The revenue raised as at 31 January 2022 is **R 688.7 million** against the original budget of **R 992.9 million** for the year and **R 579.2 million** for the period. This reflects a revenue rate of **69.4%** against the original budget and **118.9%** against the year-to-date (YTD) original budget.

The operating expenditure as at 31 January 2022 was **R 365.9 million** against the original budget of **R 849.9 million** and year to date budget of **R 333.9 million**. This reflects YTD expenditure of **43.05%** against the original budget and **109.6%** against the year-to-date (YTD) original budget. The operating surplus for the period was **R 322.7 million**.

4.2 Capital Expenditure

The total original capital budget for the 2021/ 2022 financial year is **R 195.5 million**. This includes the allocations from the Municipal Infrastructure Grant (MIG) of **R 107.9 million**, the Water Services Infrastructure Grant (WSIG) of **R 85 million** and the Rural Roads Assets Management Grant (RRAMS) of **R 2.6 million**.

Year to date expenditure for MIG is **R 106.4 million**, WSIG is **R 48.1 million** and RRAMS is nil. This represents **79.03%** of the total original budget.

Total capital expenditure to date is **R 154.5 million** or **79.03%** against the original budget.

4.3 Employee Related Costs and Councilor Allowances

The total salaries budget for councillors amounts to **R 12.9 million** while salaries budget for staff amounts to **R 275.3 million**. This brings the total salaries budget to **R 288.2 million**, which is **34%** of the total operational budget. This is within the norm of 25% - 40% in terms of National Treasury circular 71 of 2014.

As at 31 January 2022, **50.1%** of the councillors' allowances budget was spent and **59.4%** was spent on the employee costs. The total actual salary cost including councilor's allowances represented **46.5%** of total operating expenditure for the period which is above the norm of 25-40% to total operating expenses as set by National Treasury circular 71.1. This ratio will reduce as and when other categories of expenditure are incurred.

4.4 Conditional Grants

As at the 31 January 2022, a total of **R 179.9 million** of conditional grants was received since 1 July 2021 whilst an additional **R 18.5 million**, which was received in the previous financial year, was available at the beginning of the period. A total of **R 163.5 million** was spent as at 31 January 2022. The operating grant utilisation is at **28.20%** and the capital grant utilisation was **85.12%** of allocations received. Overall grant utilisation is at **82.38%**.

4.5 Cash and Cash Equivalents

An amount of **R 16 721** was accrued in investment interest income for the month of January 2022. The cash in bank as at 31 January 2022 amounted to **R 154.5 million** and investments amounted to **R 3.8 million** resulting in a total cash and cash equivalents balance of **R 158.3 million**. The average interest rate on investment is at **5.25%**. The cash coverage ratio as at 31 January 2022 is **1.71** based on average of R 70 million per month fixed operating expenditure. This indicates that the municipality as at 31 January 2022 has enough cash to run its operation for **51.23 days** based on a 30-day calendar month. The norm as set out in the uniform financial ratios and norms circular 71 is 1 to 3 months.

4.6 Borrowings

As at 31 January 2022, the loan book was at a total balance of **R 175.5 million**. The average interest rate on remaining loan is **10.889%**. The debt to revenue ratio is at **25.49%** which is within the treasury norm of below 45%. The YTD debt service to income ratio indicates that the costs associated with the debt were funded by 1.69% of the operating income.

4.7 Outstanding Creditors

The balance of trade payables as at 31 January 2022 was **R 111.4 million**.

A total of **R 62.1 million** or **56%** of invoices remained outside the compliance period of 30 days as at 31 January 2022.

The invoices that are outstanding longer than 150 days, are mostly invoices under dispute. The Heads of Departments have been requested to finalize the disputes with the service providers or the service providers have been requested to submit a credit note to cancel the raised invoices. The municipality has extended rental lease agreements to allow for the supply chain processes to be finalized.

4.8 Billing Revenue and Debtors

Billing revenue for the month of January 2022 was **R 32.1 million**. Actual collections during December 2021 were **R 14.5 million** which represented **49%** of the December 2021 billed revenue. The overall collection rate for the financial year is **51%** which is below the collection rate for the same period in the previous financial year of **57%**.

The percentage of collection for Water Schemes remains low as consumers in these areas refuse to pay for water services rendered. Certain rural schemes have constant interruption of water supply and it is therefore difficult to implement the Credit Control Policy in these areas. Strategies are being developed to improve the collection of these outstanding amounts.

As part of the Revenue Enhancement Programme, the municipality is conducting a data cleansing and revenue management exercise. This exercise was previously piloted by the municipality in partnership with the Development Bank of Southern Africa and was completed with recommendations that are considered by the municipality to increase and enhance revenue raising and collection strategies.

The debtors book value as at 31 January 2022 amounted to **R 1.194 billion**. A total of **R 1.107 billion** or **93%** relates to amounts owing for more than 90 days. The accumulated impairment of debtors amounts to **R 965 million**. Interest on outstanding debtors to a total of **R20 209** has been written off through the Incentive Scheme for consumers effective from 15 June 2021 and is valid until 01 February 2022.

Engagements with organized labour through the Local Labor Forum have been finalized and agreed upon to deal with regards to staff balances. Individual letters are being sent to individuals to sign consent for the Municipality to deduct the monies owed above 90 days.

4.9 Budget Funding Plan

The 2021/22 Budget Funding Plan detailing the financial recovery strategies of the municipality was adopted by Full Council on 29 September 2021.

The year-to date (01 July to 31 January 2022) financial information indicates the following:

The service charges generated to date for both water and sanitation are below the budgeted projections. In month seven we would anticipate having generated approximately 58% of the budgeted amount. Service charges for water are 52% which is slightly below the projection as per the budget funding plan whereas service charges for sanitation are below the projection at 41%. The sanitation charges may require an adjustment downwards during the adjustment budget process in line with Provincial Treasury recommendations.

Interest earned on external investments as well as the interest earned on outstanding debtors was projected conservatively for purposes of the budget funding plan where actuals to date are 290% and 221%, respectively, of the projected amounts. These amounts will be adjusted up during the adjustment budget process in line with Provincial Treasury recommendations.

The employee related costs (employee and councilors) are slightly above the budget funding plan projections at 61% of the projected amount as per the budget funding plan whereas the remuneration of councilors is at 50%.

The pattern of spend of the contracted services and operational expenditure is not fixed throughout the financial year. Contracted services are at 71% and operational expenses are at 112% with inventory consumed at 8%.

Expenditure relating to contracted services is currently being interrogated and necessary cuts have been proposed to manage this expenditure. The percentage spend will be higher once the budget amounts relating to the other operational expenditure are reallocated thereto and classified correctly.

Reclassifications have been effected on the financial system following the conclusion of the analysis of expense accounts in the financial system to ensure accurate transacting and reporting of expenditure by nature. However, the corresponding budget amounts are still misclassified and will be corrected during the adjustment budget process.

Bulk water purchases are not yet transacted as inventory consumed and the exercise of quantifying the various journals that are required to report water inventory accurately is currently underway. Total bulk water purchased to date is a total of R131.5 million.

Transfer to UMEDA paid - an additional R1.2 million was transferred for the Rapid Economic Recovery Project and will be adjusted for during the mid-year adjustment process.

RECOMMENDATIONS

1. That, in compliance with, Section 71 of the MFMA and in terms of Government Notice 32141 dated 17 April 2009, regarding the “Local Government: Municipal Finance Management Act 2003 Municipal Budget and Reporting Regulations” the **preliminary** financial results regarding the operating and capital budgets for the seventh month of the 2021/2022 financial year, and supporting documents as required by National Treasury (Schedule C) be submitted to Council.
2. In order to comply with Section 31(1) of the Government Gazette No 32141 of 17 April 2009 this report be submitted to the National Treasury and the relevant Provincial Treasury within five days of tabling of the report in the council, in both a Council approved document and in electronic format.
3. That Committee notes and approves the following:
 - 3.1 The surplus after capital transfers and contributions for the period ending is 31 January 2022 is **R 477.2 million**.
 - 3.2 Cash & Cash Equivalents for the period ending 31 January 2022 is **R 154.5 million** excluding the investment of **R 3.8 million** held as security for the loan.
 - 3.3 Capital Expenditure for the period ending 31 January 2022 is **R 154.5 million**.
 - 3.4 Trade Payables for the period ending 31 January 2022 is **R 111.4 million**.
 - 3.5 Trade Receivables for the period ending 31 January 2022 is **R 1.194 billion**.
 - 3.6 Unspent conditional Grants for the period ending 31 January 2022 is **R 34.9 million**.
4. The Committee notes the cash and cash equivalents of **R 158.3 million** translates to a positive cash Coverage of **51.23 days**. National Treasury Norm of 1 – 3 months.
5. The Committee notes the progress made on the 2021/22 budget funding plan.